



**MADIBENG LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

General Information

| | |
|--|--|
| Legal form of entity | Local Municipality |
| Nature of business and principal activities | Providing municipal services |
| The following is included in the scope of operation | |
| Speaker | Cllr. FM Mangoathe (appointed - 08 August 2014) |
| Executive Mayor | Cllr. JM Mothibe (Appointed - 08 August 2014) |
| Single Whip | Cllr. S Klass |
| Mayoral committee | Cllr. MM Machete Cllr. DS Maimane Cllr. RL Maluleke Cllr. NM Maswanganyi Cllr. ETM Modise Cllr. MG Nqetho Cllr. SDN Nthangeni Cllr. Ntshabele Cllr. NR Rakolle Cllr. MP Tlhopane |
| Councillors | Cllr. PB Makgabo Cllr. MZ Banda Cllr. EJ Barlow Cllr. GD Betha Cllr. TS Bogale Cllr. RNJ Breytenbach Cllr. S Davids Cllr. BP Eckard Cllr. RB Ellis Cllr. RD Lekoane Cllr. EDF Lourens Cllr. P Maakane Cllr. MP Magongwa – Resigned 05 August 2014 Cllr. BD Mahlaole Cllr. ML Makgale Cllr. PB Makhongela Cllr. SS Malete Cllr. P Maliwa Cllr. PD Mamogwe Cllr. P Mantu Cllr. NM Maringa Cllr. JS Masina Cllr. K Matli Cllr. SA Matome Cllr. SM Maunatlala Cllr. LE Meso Cllr. DP Mhlanga Cllr. JT Moabi |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

General Information

Cllr. ME Moatshe
Cllr. TM Modiha
Cllr. RK Mogotsi
Cllr. WS Molefe
Cllr. SB Molelu
Cllr. MS Moloi
Cllr. S Monnakgotla
Cllr. BG Montsho
Cllr. NJ Montsho
Cllr. PN More
Cllr. FJ Motepe
Cllr. MW Motlhasedi
Cllr. G Motlhokapudi
Cllr. S Mpongwana
Cllr. S Nngubegusha
Cllr. LL Nkhoma
Cllr. I Nkosi
Cllr. II Padi
Cllr. AG Peplar
Cllr. HT Phalwane
Cllr. PA Phetlhe
Cllr. J Pieterse
Cllr. IS Raseroke
Cllr. GJ Rossouw
Cllr. J Sefudi
Cllr. CD Sekhoto
Cllr. M Serero
Cllr. WI Strauss
Cllr. AM Tshidi
Cllr. TPJ Tsotetsi
Cllr. EE Tanke
Cllr. EM Thabane

| | |
|---|---------------------------------------|
| Grading of local authority | 4 (medium capacity) |
| Acting Accounting Officer | ME Manaka |
| Acting Chief Financial Officer (CFO) | LP Steenkamp |
| Registered office | 53 Van Velden Street Brits 0250 |
| Business address | 53 Van Velden Street Brits 0250 |
| Postal address | PO Box 106 Brits 0250 |
| Bankers | ABSA Bank Limited |
| Auditors | Auditor General |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

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Abbreviations

| | |
|-------|---|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for the audit and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors.

The annual financial statements set out on page 8 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015.

Acting Accounting Officer
ME Manaka

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Audit Committee Report

In terms of the section 166 of Municipal Finance Management Act (Act no.56 of 2003) an Audit Committee is established to serve as an independent governance structure whose function is to provide an oversight role on the system of internal control, financial reporting processes, risk management, governance and the organisation's process for monitoring compliance with laws and regulations and the code of conducts. Furthermore, the Audit Committee assists the Accounting Officer in the effective execution of his responsibilities with the ultimate aim of the achievement of the organisation's objectives and goals. The Audit Committee has adopted its written terms of reference approved by the Council.

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

The audit committee consists of four (4) members who have been appointed by the council in November 2011. During the financial year, three (3) ordinary meetings and two (2) special meetings were held to deal with urgent matters:

| Name of member | Number of meetings attended |
|-----------------------------------|-----------------------------|
| HB Mathibela (Acting Chairperson) | 5 |
| MA Mmapheto | 5 |
| Z Fihlani | 2 |
| FJ van der Westhuizen | 4 |

Effectiveness of internal control

The Audit Committee reviewed the work of Internal Audit in terms of the approved Audit Plan. Based on the work of Internal Audit Function and the report of the Auditor-General, there was a breakdown of internal controls reported by auditors and management has made commitment to address the shortcomings. Be that as it may, the Audit Committee can assert that the internal controls implemented by management are partially effective to assist management in achieving the municipality's strategic objectives and goals.

Effectiveness of internal Audit

The Audit Committee is of the opinion that Internal Audit operates effectively under the circumstances to meet its mandate. However, the Committee has noted with concern the staff shortages and budget to complement its capacity. The resource constraints have been communicated to management for further consideration. Additional resources have been made available by management at the tail end by appointing co-sourced service provider to assist to finalise the audits in the operational plan. The Audit Committee has considered among others the following activities of Internal Audit:

- Three-year rolling strategic Internal Audit plan and an Annual Internal Audit Plan for the year ending 30 June 2013.
- The Internal Audit Charter.
- Internal Audit reports.

Effectiveness of risk management

The Accounting Officer is responsible for the establishment of an effective system of risk management within the municipality to ensure achievement of desired strategic objectives. Management is responsible for implementing and monitoring the risk management interventions. The municipality conducted a risk assessment and certain additional work in this regard during the financial year. However, of concern to the Audit Committee is the lack of urgency shown by management in capacitating the Risk Management unit as advised by the Audit Committee.

To this effect, the Audit Committee recommends the establishment of a Risk Management unit in line with the municipality's approved organizational structure as approved by Council.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Audit Committee Report

Effectiveness of performance management system

The municipality has a performance management system and policy approved by Council and performance management has been partially undertaken by the administration. The Committee has considered the reports of Internal Audit for performance management and assert that while progress has been made, more work still needs to be done to improve performance management in the municipality. The Audit Committee wishes to commend the municipality on the cascading down of the performance management system to middle management and lower which bears testimony to the fact that Audit Committee recommendations are given consideration by management.

Furthermore, the Audit Committee noted with concern the non-functionality of the PMS unit and recommends that the municipality intervenes in as far as training intervention is concerned. The Committee wishes to commend the municipality for addressing the challenges encountered by the Performance Management System unit in as far as training interventions are concerned and for the procurement of the required software to assist the unit in the discharge of their function.

Quality of monthly/quarterly financial reporting

The Audit Committee was privy to the monthly financial reports submitted by the Budget and Treasury Office during the period under review. To this end, the Audit Committee is of the opinion that the quality of the reports was acceptable and in line with the requirements of the applicable legislation.

In as far as the financial reports are concerned; the contentious issue of overtime is still a problem for the municipality. Management needs to determine the root cause of the exorbitant overtime the municipality is incurring and the matter needs to be addressed urgently, whether it is through the advertisement of vacant positions or the implementation of a shift system.

Annual financial statements

In fulfilling our responsibilities to review of the Annual Financial Statements, The Audit Committee considered whether they are fairly presented, complete and reflect appropriate accounting principles. Among others the Committee has performed the following:

- Reviewed and discussed with the Accounting Officer and the Chief Financial Officer Auditor the draft Annual Financial Statements.
- Reviewed the resolution of significant and/or unusual accounting and auditing challenges highlighted by management
- Reviewed the statement of disclosure in the draft annual financial statements
- Reviewed unusual circumstances or events reflected in the Draft annual Financial Statements
- Evaluated the requirements of the MFMA and Treasury Regulations as well as certain statements of Generally Recognized Accounting Practice (GRAP)

Appreciation

The Audit Committee expresses its sincere appreciation to the Offices of the Executive Mayor, the Speaker, the Chief Whip, Municipal Manager, Management and all officials for their unwavering support and interest in the activities of the Committee during the year under review. The advice and support of other stakeholders such as the Internal Audit function, Auditor General South Africa, National and Provincial Treasuries is also acknowledged in pursuing the interest of effective Corporate Governance and clean audit outcomes within the municipality.

We extend our gratitude to the Internal Audit unit for their efforts during the year despite resources constraints and other frustrations they might have encountered. The Audit Committee remains confident of the matters raised in this report receiving due consideration and intervention. We are committed to fully execute our oversight function and in strengthening Corporate Governance.

Chairperson of the Audit Committee

Date: _____

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had a deficits of R 729 887 655 and that the municipality's total current liabilities exceed its current assets by R 115 889 899.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

7. Bankers

The municipality banks primarily with ABSA Bank Limited.

8. Auditors

Auditor General will continue in office for the next financial period.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

| Figures in Rand | Note(s) | 2015 | 2014 |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 8 | 10 222 258 | 5 399 009 |
| Other financial assets | 6 | 3 019 313 | 3 034 500 |
| Receivables from non-exchange transactions | 9 | 101 974 374 | 51 714 782 |
| VAT receivable | 10 | 33 860 037 | - |
| Consumer receivables | 11 | 179 551 064 | 60 802 513 |
| Cash and cash equivalents | 12 | 26 339 722 | 31 636 027 |
| | | 354 966 768 | 152 586 831 |
| Non-Current Assets | | | |
| Investment property | 3 | 271 874 000 | 457 151 266 |
| Property, plant and equipment | 4 | 6 198 426 254 | 6 708 792 468 |
| Heritage assets | 5 | 10 100 | 10 100 |
| Other financial assets | 6 | 12 197 369 | 11 733 089 |
| | | 6 482 507 723 | 7 177 686 923 |
| Non-Current Assets | | 6 482 507 723 | 7 177 686 923 |
| Current Assets | | 354 966 768 | 152 586 831 |
| Non-current assets held for sale (and) (assets of disposal groups) | | - | - |
| Total Assets | | 6 837 474 491 | 7 330 273 754 |
| Liabilities | | | |
| Current Liabilities | | | |
| Finance lease obligation | 14 | 1 925 824 | 58 053 |
| Payables from exchange transactions | 17 | 414 771 113 | 246 423 968 |
| Payables from non-exchange transactions | 18 | 26 820 655 | 38 304 662 |
| VAT payable | 10 | - | 3 509 243 |
| Consumer deposits | 19 | 12 942 101 | 12 922 478 |
| Unspent conditional grants and receipts | 15 | 5 193 673 | 5 754 283 |
| Bank overdraft | 12 | 9 203 301 | 35 489 536 |
| | | 470 856 667 | 342 462 223 |
| Non-Current Liabilities | | | |
| Other financial liabilities | 13 | 772 450 315 | 683 345 367 |
| Finance lease obligation | 14 | 4 477 740 | - |
| Employee benefit obligation | 7 | 143 987 833 | 130 901 442 |
| Provisions | 16 | 17 154 826 | 15 129 957 |
| | | 938 070 714 | 829 376 766 |
| Non-Current Liabilities | | 938 070 714 | 829 376 766 |
| Current Liabilities | | 470 856 667 | 342 462 223 |
| Liabilities of disposal groups | | - | - |
| Total Liabilities | | 1 408 927 381 | 1 171 838 989 |
| Assets | | 6 837 474 491 | 7 330 273 754 |
| Liabilities | | (1 408 927 381) | (1 171 838 989) |
| Net Assets | | 5 428 547 110 | 6 158 434 765 |
| Net Assets | | | |
| Accumulated surplus | | 5 428 547 110 | 6 158 434 765 |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---------|------------------------|------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 22 | 574 162 365 | 492 531 889 |
| Rental of facilities and equipment | | 609 731 | 582 630 |
| Interest received (trading) | | 64 767 525 | 44 417 978 |
| Licences and permits | | 5 438 102 | 4 554 531 |
| Commissions received | | 9 605 630 | 8 963 833 |
| Other income | 24 | 12 796 665 | 16 253 683 |
| Interest received - investment | 29 | 3 750 086 | 3 442 116 |
| Total revenue from exchange transactions | | 671 130 104 | 570 746 660 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 21 | 312 009 861 | 193 598 617 |
| Transfer revenue | | | |
| Government grants & subsidies | 23 | 624 667 582 | 550 271 966 |
| Fines | | 2 098 780 | 2 469 180 |
| Total revenue from non-exchange transactions | | 938 776 223 | 746 339 763 |
| | | 671 130 104 | 570 746 660 |
| | | 938 776 223 | 746 339 763 |
| Total revenue | 20 | 1 609 906 327 | 1 317 086 423 |
| Expenditure | | | |
| Personnel | 26 | (324 757 266) | (292 524 494) |
| Remuneration of councillors | 27 | (22 405 619) | (23 887 187) |
| Depreciation and amortisation | 31 | (600 426 841) | (602 559 614) |
| Impairment loss | 32 | (132 121 327) | - |
| Finance costs | 33 | (101 123 702) | (88 336 107) |
| Debt impairment | 28 | (85 325 977) | (78 388 335) |
| Repairs and maintenance | | (64 294 729) | (53 090 119) |
| Bulk purchases | 36 | (491 234 038) | (419 186 486) |
| Contracted services | 35 | (153 969 106) | (130 870 968) |
| Grants and subsidies paid | | (13 322 718) | (5 392 417) |
| General expenses | 25 | (155 400 553) | (139 497 450) |
| Total expenditure | | (2 144 381 876) | (1 833 733 177) |
| | | - | - |
| Total revenue | | 1 609 906 327 | 1 317 086 423 |
| Total expenditure | | (2 144 381 876) | (1 833 733 177) |
| Operating deficit | | (534 475 549) | (516 646 754) |
| Loss on assets written off | 4 | (11 399 504) | (263 225) |
| Actuarial gain/(loss) on post employment benefits | 7 | 2 397 273 | (9 274 628) |
| Fair value adjustments | 30 | (184 663 209) | 762 814 |
| Gain (loss) on provision for landfill closure | 16 | (1 746 666) | (5 268 595) |
| | | (195 412 106) | (14 043 634) |
| | | - | - |
| Deficit before taxation | | (729 887 655) | (530 690 388) |
| Taxation | | - | - |
| Deficit for the year | | (729 887 655) | (530 690 388) |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|----------------------|----------------------|
| Opening balance as previously reported | 3 746 572 949 | 3 746 572 949 |
| Adjustments | | |
| Prior year adjustments | 2 942 552 204 | 2 942 552 204 |
| Balance at 01 July 2013 as restated* | 6 689 125 153 | 6 689 125 153 |
| Changes in net assets | | |
| Deficit for the year | (530 690 388) | (530 690 388) |
| Total changes | (530 690 388) | (530 690 388) |
| Balance at 01 July 2014 | 6 158 434 765 | 6 158 434 765 |
| Changes in net assets | | |
| Deficit for the year | (729 887 655) | (729 887 655) |
| Total changes | (729 887 655) | (729 887 655) |
| Balance at 30 June 2015 | 5 428 547 110 | 5 428 547 110 |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 426 747 217 | 448 314 138 |
| Grants | | 624 106 972 | 550 271 966 |
| Interest income | | 3 750 086 | 3 442 116 |
| Property rates and fines | | 263 849 049 | 157 714 550 |
| Other receipts | | 13 097 838 | 27 835 428 |
| | | 1 331 551 162 | 1 187 578 198 |
| Payments | | | |
| Employee costs | | (354 762 389) | (316 411 681) |
| Suppliers | | (728 586 520) | (716 084 691) |
| Finance costs | | (141 390) | (3) |
| | | (1 083 490 299) | (1 032 496 375) |
| Total receipts | | 1 331 551 162 | 1 187 578 198 |
| Total payments | | (1 083 490 299) | (1 032 496 375) |
| Net cash flows from operating activities | 37 | 248 060 863 | 155 081 823 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 4 | (233 581 408) | (192 858 270) |
| Movement in investments | | 164 964 | 1 980 808 |
| Net cash flows from investing activities | | (233 416 444) | (190 877 462) |
| Cash flows from financing activities | | | |
| Finance lease payments | | (58 053) | (721 685) |
| Finance lease receipts | | 6 403 564 | - |
| Net cash flows from financing activities | | 6 345 511 | (721 685) |
| Net increase/(decrease) in cash and cash equivalents | | 20 989 930 | (36 517 324) |
| Cash and cash equivalents at the beginning of the year | | (3 853 509) | 32 663 815 |
| Cash and cash equivalents at the end of the year | 12 | 17 136 421 | (3 853 509) |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts | Difference between final budget and actual | Reference |
|--|-----------------|-------------|--------------|----------------|--|-----------|
|--|-----------------|-------------|--------------|----------------|--|-----------|

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | | |
|---|--------------------|---|--------------------|--------------------|---------------------|-------------|
| Service charges | 601 567 403 | - | 601 567 403 | 574 162 365 | (27 405 038) | Appendix E1 |
| Rental of facilities and equipment | 596 277 | - | 596 277 | 609 731 | 13 454 | Appendix E1 |
| Interest received (trading) | 50 252 601 | - | 50 252 601 | 64 767 525 | 14 514 924 | Appendix E1 |
| Licences and permits | 1 795 951 | - | 1 795 951 | 5 438 102 | 3 642 151 | Appendix E1 |
| Commissions received | 2 244 610 | - | 2 244 610 | 9 605 630 | 7 361 020 | Appendix E1 |
| Other income | 26 477 234 | - | 26 477 234 | 12 796 665 | (13 680 569) | Appendix E1 |
| Interest received - investment | 3 942 603 | - | 3 942 603 | 3 750 086 | (192 517) | Appendix E1 |
| Total revenue from exchange transactions | 686 876 679 | - | 686 876 679 | 671 130 104 | (15 746 575) | |

Revenue from non-exchange transactions

Taxation revenue

| | | | | | | |
|-------------------------------|-------------|---|--------------------|-------------|---------------------|-------------|
| Property rates | 330 083 730 | - | 330 083 730 | 312 009 861 | (18 073 869) | Appendix E1 |
| Government grants & subsidies | 635 152 000 | - | 635 152 000 | 624 667 582 | (10 484 418) | Appendix E1 |

Transfer revenue

| | | | | | | |
|-------|-----------|---|------------------|-----------|------------------|-------------|
| Fines | 1 093 599 | - | 1 093 599 | 2 098 780 | 1 005 181 | Appendix E1 |
|-------|-----------|---|------------------|-----------|------------------|-------------|

| | | | | | | |
|---|--------------------|---|--------------------|--------------------|---------------------|--|
| Total revenue from non-exchange transactions | 966 329 329 | - | 966 329 329 | 938 776 223 | (27 553 106) | |
|---|--------------------|---|--------------------|--------------------|---------------------|--|

| | | | | | | |
|--|-------------|---|--------------------|-------------|---------------------|-------------|
| 'Total revenue from exchange transactions' | 686 876 679 | - | 686 876 679 | 671 130 104 | (15 746 575) | Appendix E1 |
|--|-------------|---|--------------------|-------------|---------------------|-------------|

| | | | | | | |
|--|-------------|---|--------------------|-------------|---------------------|-------------|
| 'Total revenue from non-exchange transactions' | 966 329 329 | - | 966 329 329 | 938 776 223 | (27 553 106) | Appendix E1 |
|--|-------------|---|--------------------|-------------|---------------------|-------------|

| | | | | | | |
|----------------------|----------------------|---|----------------------|----------------------|---------------------|--|
| Total revenue | 1 653 206 008 | - | 1 653 206 008 | 1 609 906 327 | (43 299 681) | |
|----------------------|----------------------|---|----------------------|----------------------|---------------------|--|

Expenditure

| | | | | | | |
|--|---------------|--------------|----------------------|---------------|----------------------|-------------|
| Personnel | (308 100 489) | - | (308 100 489) | (324 757 266) | (16 656 777) | Appendix E1 |
| Remuneration of councillors | (25 799 620) | - | (25 799 620) | (22 405 619) | 3 394 001 | Appendix E1 |
| Depreciation and amortisation | (78 340 000) | - | (78 340 000) | (600 426 841) | (522 086 841) | Appendix E1 |
| Impairment loss/ Reversal of impairments | - | - | - | (132 121 327) | (132 121 327) | |
| Finance costs | (10 000 000) | 10 000 000 | - | (101 123 702) | (101 123 702) | Appendix E1 |
| Debt impairment | (232 912 783) | - | (232 912 783) | (85 325 977) | 147 586 806 | Appendix E1 |
| Repairs and maintenance | (47 825 000) | (737 000) | (48 562 000) | (64 294 729) | (15 732 729) | Appendix E1 |
| Bulk purchases | (449 200 000) | (13 800 000) | (463 000 000) | (491 234 038) | (28 234 038) | Appendix E1 |
| Contracted Services | (106 200 000) | 18 721 610 | (87 478 390) | (153 969 106) | (66 490 716) | Appendix E1 |
| Grants and subsidies paid | (15 000 000) | - | (15 000 000) | (13 322 718) | 1 677 282 | Appendix E1 |
| General Expenses | (120 554 003) | (14 184 610) | (134 738 613) | (155 400 553) | (20 661 940) | Appendix E1 |

| | | | | | | |
|--------------------------|------------------------|---|------------------------|------------------------|----------------------|--|
| Total expenditure | (1 393 931 895) | - | (1 393 931 895) | (2 144 381 876) | (750 449 981) | |
|--------------------------|------------------------|---|------------------------|------------------------|----------------------|--|

| | | | | | | |
|--|---------------|---|----------------------|---------------|---------------------|--|
| | 1 653 206 008 | - | 1 653 206 008 | 1 609 906 327 | (43 299 681) | |
|--|---------------|---|----------------------|---------------|---------------------|--|

| | | | | | | |
|--|-----------------|---|------------------------|-----------------|----------------------|--|
| | (1 393 931 895) | - | (1 393 931 895) | (2 144 381 876) | (750 449 981) | |
|--|-----------------|---|------------------------|-----------------|----------------------|--|

| | | | | | | |
|------------------------------------|--------------------|---|--------------------|----------------------|----------------------|--|
| Operating (deficit)/surplus | 259 274 113 | - | 259 274 113 | (534 475 549) | (793 749 662) | |
|------------------------------------|--------------------|---|--------------------|----------------------|----------------------|--|

| | | | | | | |
|----------------------------|---|---|---|--------------|---------------------|------------|
| Loss on assets written off | - | - | - | (11 399 504) | (11 399 504) | Appendix E |
|----------------------------|---|---|---|--------------|---------------------|------------|

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final budget | Actual amounts | Difference between final budget and actual | Reference |
|--|--------------------|-------------|----------------------|----------------------|---|-------------|
| Figures in Rand | | | | | | |
| Actuarial gains/(loss) on post employment benefits | - | - | - | 2 397 273 | 2 397 273 | Appendix E1 |
| Fair value adjustments | - | - | - | (184 663 209) | (184 663 209) | Appendix E1 |
| Gain/(loss) on provision for landfill closure | - | - | - | (1 746 666) | (1 746 666) | Appendix E |
| | - | - | - | (195 412 106) | (195 412 106) | |
| | 259 274 113 | - | 259 274 113 | (534 475 549) | (793 749 662) | |
| | - | - | - | (195 412 106) | (195 412 106) | |
| Surplus/(deficit) | 259 274 113 | - | 259 274 113 | (729 887 655) | (989 161 768) | |
| Surplus before taxation | 259 274 113 | - | 259 274 113 | (729 887 655) | (989 161 768) | |
| Taxation | - | - | - | - | - | |
| Surplus/(deficits) for the year | 259 274 113 | - | 259 274 113 | (729 887 655) | (989 161 768) | |
| Capital Expenditures | (265 805 000) | - | (265 805 000) | (233 581 408) | 32 223 592 | Appendix E2 |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | (6 530 887) | - | (6 530 887) | (963 469 063) | (956 938 176) | |
| Reconciliation | | | | | | |
| Basis difference | | | | | | |
| Capital Expenditure | | | | 233 581 408 | | |
| Actual Amount in the Statement of Financial Performance | | | | (729 887 655) | | |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The annual financial statements have been rounded to the nearest Rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in note 25.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and intangible assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for debt impairment

On receivables, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The recoverability percentage on receivables is calculated annual per receivables category.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably or fair value.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life |
|--------------------------|---------------------|
| Land | Indefinite |
| Buildings | 30 - 80 years |
| Plant and machinery | 5 - 17 years |
| Furniture and fixtures | 5 - 17 years |
| Motor vehicles | 5 - 15 years |
| Office equipment | 3 - 12 years |
| Computer equipment | 3 - 12 years |
| Bins and containers | 7 - 15 years |
| Infrastructure assets | |
| • Road surface layers | 7 - 50 years |
| • Road structural layers | 7 - 50 years |
| • Bridges | 60 - 80 years |
| • Culverts | 15 years |
| • Storm water | 50 - 80 years |
| • Electricity | 30 - 50 years |
| • Water assets | 12 - 80 years |
| • UPVC pipes | 40 - 80 years |
| • Sewer pipes | 80 years |
| Community assets | |
| • Buildings | 30 - 50 years |
| • Sports fields | 7 - 15 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 5.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

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Accounting Policies

1.8 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivable from exchange transactions
Receivable from non-exchange transactions
Cash and cash equivalents
Other financial assets

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Other financial liabilities
Finance lease obligation
Payable from exchange transactions
Bank overdraft

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Category

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

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Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Short term receivables and payables are not discounted where the initial credit period granted or received is consistent with the terms in the public sector, either through established practices or legislation.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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Accounting Policies

1.8 Financial instruments (continued)

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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Accounting Policies

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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Accounting Policies

1.10 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in uses of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), is recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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Accounting Policies

1.13 Employee benefits (continued)

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money.

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Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans..

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and

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Accounting Policies

1.13 Employee benefits (continued)

- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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Accounting Policies

1.13 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long term employee benefits

The municipality has an obligation to provide long service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

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Accounting Policies

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified receivable fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the receivable;
- defaults or delinquencies in interest and capital repayments by the receivable;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the receivable to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of municipalities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

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Accounting Policies

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.17 Government grants

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant..

1.18 Other grants and donations

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Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant..

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Accounting Policies

1.18 Other grants and donations (continued)

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Grants in aid

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year note 42.

1.22 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

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Accounting Policies

1.24 Irregular expenditure (continued)

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure"

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.25 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.26 Commitments

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Refer to note 38

1.27 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.27 Budget information (continued)

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2014 to 30 June 2015.

1.28 Related parties

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in ordinary course of business are disclosed.

1.29 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.30 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

2. Standards and interpretations

2.1 Standards and interpretations effective in the current year

| | |
|----------|--|
| GRAP 1 | Presentation of Financial Statement |
| GRAP 2 | Cash Flow Statement |
| GRAP 3 | Change Accounting Policies, Change in Accounting estimates and Error |
| GRAP 4 | The Effects of changes in Foreign Exchange Rates |
| GRAP 5 | Borrowing Costs |
| GRAP 6 | Consolidated and Separate Financial Statement |
| GRAP 7 | Investment in Associates |
| GRAP 8 | Investment in Joint Ventures |
| GRAP 9 | Revenue from Exchange Transactions |
| GRAP 10 | Financial Reporting in hyper Inflationary Economies |
| GRAP 11 | Construction Contracts |
| GRAP 12 | Inventories |
| GRAP 13 | Lease |
| GRAP 14 | Events after the reporting date |
| GRAP 16 | Investment Property |
| GRAP 17 | Property, Plant and Equipment |
| GRAP 18 | Segment Reporting |
| GRAP 19 | Provisions, Contingent Liabilities and Contingent Assets |
| GRAP 21 | Impairment of non-cash generating assets |
| GRAP 23 | Revenue from non exchange transaction |
| GRAP 24 | Budget information |
| GRAP 25 | Employee Benefits |
| GRAP 26 | Impairment of cash generating assets |
| GRAP 100 | Non-current Assets held for sale and discontinued operations |
| GRAP 101 | Agriculture |
| GRAP 102 | Intangible Assets |
| GRAP 103 | Heritage Assets |
| GRAP 104 | Financial Instruments |

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.³⁵

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 105: Transfers of functions between entities under common control

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid , if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2015.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus /(deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An municipality (in this standard referred to as the reporting entity) shall apply this standard:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE.

Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only. PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions.

Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, the effective date is set for 1 April 2015 but municipalities are not yet required to apply or early adopt.

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

The expected impact of the standard is to be investigated.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time.

The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. Standards and interpretations (continued)

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

3. Investment property

| | 2015 | | | 2014 | | |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 271 874 000 | - | 271 874 000 | 457 151 266 | - | 457 151 266 |

Reconciliation of investment property - 2015

| | Opening balance | Fair value adjustments | Total |
|---------------------|--------------------|---------------------------|-------------|
| Investment property | 457 151 266 | (185 277 266) | 271 874 000 |

Reconciliation of investment property - 2014

| | Opening balance | Transfers to PPE | Total |
|---------------------|--------------------|---------------------|-------------|
| Investment property | 466 341 266 | (9 190 000) | 457 151 266 |

Pledged as security

Carrying value of assets pledged as security:

No assets were pledged as security.

Fair Value of investment property

The investment property as fair valued by an independent valuator. The fair value of investment property was assessed at the end of the financial year and the significant changes in the fair value of the properties was adjusted.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

Income and Expenditure

| | | |
|---------------|---------|---------|
| Rental income | 609 731 | 582 630 |
|---------------|---------|---------|

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

| | 2015 | | | 2014 | | |
|-------------------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 811 057 726 | - | 811 057 726 | 811 057 726 | - | 811 057 726 |
| Buildings | 98 442 324 | (15 401 389) | 83 040 935 | 92 108 477 | (12 257 928) | 79 850 549 |
| Infrastructure | 7 769 119 653 | (3 094 972 895) | 4 674 146 758 | 7 716 331 376 | (2 367 875 080) | 5 348 456 296 |
| Community | 73 975 814 | (5 954 947) | 68 020 867 | 44 735 174 | (4 313 240) | 40 421 934 |
| Work in progress | 528 830 020 | - | 528 830 020 | 408 097 402 | - | 408 097 402 |
| Other equipment | 5 617 161 | (39 008) | 5 578 153 | - | - | - |
| Other property, plant and equipment | 48 848 099 | (21 096 304) | 27 751 795 | 45 984 455 | (25 075 894) | 20 908 561 |
| Total | 9 335 890 797 | (3 137 464 543) | 6 198 426 254 | 9 118 314 610 | (2 409 522 142) | 6 708 792 468 |

Reconciliation of property, plant and equipment - 2015

| | Opening balance | Additions | Transfers | Other movements | Assets written off | Depreciation | Impairment loss | Total |
|-------------------------------------|----------------------|--------------------|--------------|------------------|---------------------|----------------------|----------------------|----------------------|
| Land | 811 057 726 | - | - | - | - | - | - | 811 057 726 |
| Buildings | 79 850 549 | - | 6 333 847 | - | - | (3 143 461) | - | 83 040 935 |
| Infrastructure | 5 348 456 296 | - | 64 331 804 | - | (9 582 795) | (596 937 271) | (132 121 276) | 4 674 146 758 |
| Community | 40 421 934 | - | 29 240 640 | - | - | (1 641 707) | - | 68 020 867 |
| Work in progress | 408 097 402 | 220 638 909 | (99 906 291) | - | - | - | - | 528 830 020 |
| Leased assets | - | 5 617 161 | - | - | - | (39 008) | - | 5 578 153 |
| Other property, plant and equipment | 20 908 561 | 7 325 338 | - | 4 506 832 | (1 816 708) | (3 172 228) | - | 27 751 795 |
| | 6 708 792 468 | 233 581 408 | - | 4 506 832 | (11 399 503) | (604 933 675) | (132 121 276) | 6 198 426 254 |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

| | Opening balance | Additions | Transfers | Other Movements | Assets taken- on | Assets written off | Depreciation | Total |
|-------------------------------------|----------------------|--------------------|--------------------|--------------------|---------------------|-----------------------|----------------------|----------------------|
| Land | 811 057 726 | - | - | - | - | - | - | 811 057 726 |
| Buildings | 78 664 969 | - | 4 261 572 | - | - | - | (3 075 992) | 79 850 549 |
| Infrastructure | 5 818 632 611 | - | 123 207 271 | - | - | - | (593 383 586) | 5 348 456 296 |
| Community | 39 280 417 | - | 2 270 807 | - | - | - | (1 129 290) | 40 421 934 |
| Work in progress | 357 582 114 | 188 395 422 | (139 013 821) | 1 133 687 | - | - | - | 408 097 402 |
| Other property, plant and equipment | 14 263 804 | 4 462 848 | - | - | 6 839 991 | (218 606) | (4 439 476) | 20 908 561 |
| | 7 119 481 641 | 192 858 270 | (9 274 171) | 1 133 687 | 6 839 991 | (218 606) | (602 028 344) | 6 708 792 468 |

Pledged as security

No assets have been pledged as security.

Assets subject to finance lease (Net carrying amount)

| | | |
|--------------------|-----------|---|
| Computer equipment | 5 578 153 | - |
|--------------------|-----------|---|

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Heritage assets

| | 2015 | | | 2014 | | |
|---|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Art Collections, antiquities and exhibits | 10 100 | - | 10 100 | 10 100 | - | 10 100 |

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|-----------------|------|------|
|-----------------|------|------|

5. Heritage assets (continued)

Reconciliation of heritage assets 2015

| | Opening balance | Total |
|---|-----------------|--------|
| Art Collections, antiquities and exhibits | 10 100 | 10 100 |

Reconciliation of heritage assets 2014

| | Opening balance | Total |
|---|-----------------|--------|
| Art Collections, antiquities and exhibits | 10 100 | 10 100 |

Pledged as security

No heritage assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Other financial assets

Designated at fair value

| | | |
|----------------------|-------------------|-------------------|
| Listed shares | 2 066 520 | 1 921 389 |
| Terms and conditions | | |
| Unit trusts | 8 448 553 | 8 129 404 |
| Terms and conditions | | |
| Other investments | 4 701 609 | 4 716 796 |
| Terms and conditions | | |
| | 15 216 682 | 14 767 589 |
| | 15 216 682 | 14 767 589 |
| | - | - |
| | - | - |

Non-current assets

| | | |
|------------|------------|------------|
| Fair value | 12 197 369 | 11 733 089 |
|------------|------------|------------|

Current assets

| | | |
|--------------------|-------------------|-------------------|
| Fair value | 3 019 313 | 3 034 500 |
| Non-current assets | 12 197 369 | 11 733 089 |
| Current assets | 3 019 313 | 3 034 500 |
| | 15 216 682 | 14 767 589 |

7. Employee benefit obligations

Post employment medical aid plan

The municipality offers employee and continuation member opportunity of belonging to one of the several medical aid scheme, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee continues membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

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|-----------------|------|------|
|-----------------|------|------|

7. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

| | | |
|--|--------------------|--------------------|
| Opening balance | 115 418 451 | 96 507 006 |
| Benefits paid | (2 430 360) | (2 370 264) |
| Net expense recognised in the statement of financial performance | 14 300 540 | 21 281 709 |
| | 127 288 631 | 115 418 451 |

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|-------------------|-------------------|
| Current service cost | 6 792 763 | 4 718 749 |
| Interest cost | 10 435 129 | 8 426 870 |
| Actuarial (gains) losses | (2 927 352) | 8 136 090 |
| | 14 300 540 | 21 281 709 |

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|-----------------|------|------|

7. Employee benefit obligations (continued)

Key assumptions used

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 9.05% per annum has been used. The corresponding index-linked yield is 1.82%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.11% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.61%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.87% which derives from $((1+9.05\%)/(1+8.11\%))-1$.

The expected inflation assumption of 6.61% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.82%) and those of fixed interest bonds (9.05%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+9.05\%-0.50\%)/(1+1.82\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2016.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary

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|-----------------|------|------|
|-----------------|------|------|

7. Employee benefit obligations (continued)

Long services Award

Changes in the present value of the defined benefit obligation are as follows:

| | | |
|--|-------------------|-------------------|
| Opening balance | 15 483 098 | 14 027 055 |
| Benefits paid | (1 951 910) | (1 943 939) |
| Net expense recognised in the statement of financial performance | 3 168 121 | 3 399 982 |
| | 16 699 309 | 15 483 098 |

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|------------------|------------------|
| Current service cost | 1 474 010 | 1 311 314 |
| Interest cost | 1 164 032 | 950 130 |
| Actuarial (gains) losses | 530 079 | 1 138 538 |
| | 3 168 121 | 3 399 982 |

Key assumptions used

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA– this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The key financial and demographic assumptions are summarised below:

| | | |
|---|--------|--------|
| Discount rates used | 8,15 % | 8,01 % |
| Expected rate of return on assets | 7,16 % | 7,14 % |
| Expected rate of return on reimbursement rights | 0,93 % | 0,82 % |

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.15% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.41%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

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|-----------------|------|------|

7. Employee benefit obligations (continued)

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.16% was obtained from the differential between market yields on index-linked bonds (1.41%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.15%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.15\%-0.50\%)/(1+1.41\%))-1$.

Thus, a general salary inflation rate of 7.16% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.93%.

It has been assumed that the next salary increase will take place on 1 July 2016.

8. Inventories

| | | |
|-----------------------------------|-------------------|------------------|
| Consumable stores | 9 779 761 | 4 849 076 |
| Water | 432 179 | 539 615 |
| Unsold Properties Held for Resale | 10 318 | 10 318 |
| | 10 222 258 | 5 399 009 |

9. Receivables from non-exchange transactions

| | | |
|--------------------------|--------------------|-------------------|
| Fines | 4 065 215 | 2 435 410 |
| Rates | 418 307 289 | 268 380 015 |
| Allowance for impairment | (320 398 130) | (219 100 643) |
| | 101 974 374 | 51 714 782 |

Rates

| | | |
|-------------------------------|-------------------|-------------------|
| Current (0 -30 days) | 25 492 006 | 16 236 945 |
| 31 - 60 days | 16 719 513 | 9 614 871 |
| 61 - 90 days | 14 737 431 | 7 614 559 |
| > 90 days | 361 354 701 | 234 913 640 |
| Allowance for debt impairment | (320 398 131) | (219 100 643) |
| | 97 905 520 | 49 279 372 |

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|--------------------------|----------------------|----------------------|
| Opening balance | (219 100 643) | (229 138 226) |
| Allowance for impairment | (101 297 488) | 10 037 583 |
| | (320 398 131) | (219 100 643) |

10. VAT receivable

| | | |
|-----|------------|---|
| VAT | 33 860 037 | - |
|-----|------------|---|

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|---------------------------------------|----------------------|----------------------|
| 11. Consumer | | |
| Gross balances | | |
| Electricity | 121 383 745 | 118 131 233 |
| Water | 176 229 311 | 140 008 425 |
| Sewerage | 66 554 072 | 60 904 205 |
| Refuse | 66 696 461 | 65 164 116 |
| Other | 336 270 875 | 310 673 624 |
| | 767 134 464 | 694 881 603 |
| Less: Allowance for impairment | | |
| Electricity | (92 973 430) | (107 012 027) |
| Water | (134 982 203) | (131 359 853) |
| Sewerage | (50 976 845) | (55 171 543) |
| Refuse | (51 085 907) | (59 030 486) |
| Other | (257 565 015) | (281 505 181) |
| | (587 583 400) | (634 079 090) |
| Net balance | | |
| Electricity | 28 410 315 | 11 119 206 |
| Water | 41 247 108 | 8 648 572 |
| Sewerage | 15 577 227 | 5 732 662 |
| Refuse | 15 610 554 | 6 133 630 |
| Other | 78 705 860 | 29 168 443 |
| | 179 551 064 | 60 802 513 |
| Electricity | | |
| Current (0 -30 days) | 27 087 020 | 30 745 064 |
| 31 - 60 days | 16 385 840 | 14 015 741 |
| 61 - 90 days | 16 863 369 | 13 273 100 |
| > 90 days | 61 047 516 | 60 097 328 |
| Provision for debt impairment | (92 973 430) | (107 012 027) |
| | 28 410 315 | 11 119 206 |
| Water | | |
| Current (0 -30 days) | 12 717 273 | 8 456 547 |
| 31 - 60 days | 9 613 714 | 6 866 401 |
| 61 - 90 days | 11 094 188 | 5 312 059 |
| > 90 days | 142 804 136 | 119 373 418 |
| Provision for debt impairment | (134 982 203) | (131 359 853) |
| | 41 247 108 | 8 648 572 |
| Sewerage | | |
| Current (0 -30 days) | 3 532 521 | 2 627 709 |
| 31 - 60 days | 2 350 076 | 2 042 209 |
| 61 - 90 days | 2 265 366 | 1 455 521 |
| > 90 days | 58 406 109 | 54 778 766 |
| Provision for debt impairment | (50 976 845) | (55 171 543) |
| | 15 577 227 | 5 732 662 |

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Annual Financial Statements for the year ended 30 June 2015

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| Figures in Rand | 2015 | 2014 |
|---|----------------------|----------------------|
| 11. Consumer (continued) | | |
| Refuse | | |
| Current (0 -30 days) | 2 520 500 | 2 576 192 |
| 31 - 60 days | 1 664 194 | 1 904 681 |
| 61 - 90 days | 1 589 461 | 1 572 056 |
| > 90 days | 60 922 306 | 59 111 187 |
| Provision for debt impairment | (51 085 907) | (59 030 486) |
| | 15 610 554 | 6 133 630 |
| Other (specify) | | |
| Current (0 -30 days) | 8 098 183 | 4 545 663 |
| 31 - 60 days | 8 478 706 | 5 054 929 |
| 61 - 90 days | 6 805 114 | 4 534 340 |
| > 90 days | 312 888 872 | 296 538 692 |
| Provision for debt impairment | (257 565 015) | (281 505 181) |
| | 78 705 860 | 29 168 443 |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (634 079 090) | (619 942 667) |
| Contributions to allowance | 46 495 690 | (14 136 423) |
| | (587 583 400) | (634 079 090) |
| 12. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 16 764 | 16 764 |
| Bank balances | 6 388 461 | 4 254 030 |
| Short-term deposits | 19 934 497 | 27 365 233 |
| Bank overdraft | (9 203 301) | (35 489 536) |
| | 17 136 421 | (3 853 509) |
| Current assets | 26 339 722 | 31 636 027 |
| Current liabilities | (9 203 301) | (35 489 536) |
| | 17 136 421 | (3 853 509) |

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Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|------------------------------|-------------------------|-------------------|-------------------|--------------------|--------------------|-------------------|
| | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
| ABSA Bank Cheque Account | 23 080 611 | 41 857 702 | 8 248 309 | (9 203 301) | (35 489 394) | (17 504 283) |
| ABSA Bank Cheque Account | - | - | 4 | - | - | 4 |
| ABSA Bank Cheque Account | 2 484 | 3 206 | 3 894 | 3 012 | 3 206 | 3 884 |
| ABSA Bank Cheque Account | 3 101 145 | 3 970 025 | 2 983 696 | 4 032 051 | 3 970 025 | 2 983 696 |
| ABSA Bank Cheque Account | 432 767 | 214 975 | 209 059 | 216 119 | 214 975 | 209 059 |
| ABSA Bank Cheque Account | - | - | - | 942 868 | - | - |
| Standard Bank Call Account | 4 452 | 3 147 | 4 323 | 4 452 | 4 375 | 4 323 |
| Standard Bank Call Account | 857 076 | 818 318 | 785 531 | 857 076 | 818 318 | 785 531 |
| ABSA Bank Call Account | 90 866 | 65 204 | 427 183 | 90 866 | 65 204 | 427 183 |
| ABSA Bank Call Account | 607 141 | 587 085 | 13 877 | 607 141 | 587 085 | 13 877 |
| ABSA Bank Call Account | 2 989 698 | 99 359 | 96 344 | 2 989 698 | 99 359 | 96 344 |
| ABSA Bank Call Account | 119 924 | 77 648 | 1 308 580 | 119 924 | 77 648 | 1 308 580 |
| Investec Capital Markets | 837 990 | 793 337 | 755 038 | 837 990 | 793 337 | 755 038 |
| ABSA Bank Call Account | 436 099 | 2 451 638 | 986 708 | 436 099 | 2 451 638 | 986 708 |
| ABSA Bank Call Account | 27 772 | 1 859 | 1 627 560 | 27 772 | 1 859 | 1 627 560 |
| ABSA Bank Call Account | 990 551 | 2 006 507 | 1 944 324 | 990 551 | 2 006 507 | 1 944 324 |
| ABSA Bank Call Account | 150 011 | 3 084 572 | 2 988 536 | 150 011 | 3 084 572 | 2 988 536 |
| ABSA Bank Call Account | 287 659 | 277 177 | 268 547 | 287 659 | 277 177 | 268 547 |
| ABSA Bank Call Account | 72 547 | 1 049 913 | 1 017 225 | 74 547 | 1 049 913 | 1 017 225 |
| ABSA Bank Call Account | 37 150 | 2 484 813 | 2 407 450 | 37 150 | 2 484 813 | 2 407 450 |
| ABSA Bank Call Account | 134 288 | 129 394 | 5 784 341 | 134 288 | 129 394 | 5 784 341 |
| ABSA Bank Call Account | 69 518 | 1 049 913 | 1 017 225 | 69 518 | 1 049 913 | 1 017 225 |
| ABSA Bank Call Account | 56 507 | 3 021 | 2 644 785 | 56 507 | 3 021 | 2 644 785 |
| FNB | 66 685 | 66 685 | 66 685 | 66 685 | 66 685 | 66 685 |
| ABSA Bank Call Account | 7 310 187 | 3 085 068 | 68 408 | 7 310 187 | 3 085 068 | 68 408 |
| ABSA Bank Call Account | 56 190 | 697 242 | 20 271 134 | 56 190 | 697 242 | 20 271 134 |
| ABSA Bank Call Account | 3 390 780 | 8 598 790 | - | 3 390 780 | 8 598 790 | - |
| Total | 45 210 098 | 73 476 598 | 55 928 766 | 14 585 840 | (3 869 270) | 30 176 164 |

13. Other financial liabilities

At amortised cost

| | | |
|-------------------------------------|-------------|-------------|
| Public Investment Corporation (PIC) | 772 450 315 | 683 345 367 |
|-------------------------------------|-------------|-------------|

Non-current liabilities

| | | |
|-------------------------------------|-------------|-------------|
| Public Investment Corporation (PIC) | 772 450 315 | 683 345 367 |
|-------------------------------------|-------------|-------------|

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|--|------------------|---------------|
| 14. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 2 479 500 | 59 015 |
| - in second to fifth year inclusive | 5 727 645 | - |
| | 8 207 145 | 59 015 |
| less: future finance charges | (1 803 581) | (963) |
| Present value of minimum lease payments | 6 403 564 | 58 052 |
| Present value of minimum lease payments due | | |
| - within one year | 1 925 824 | 58 052 |
| - in second to fifth year inclusive | 4 477 740 | - |
| | 6 403 564 | 58 052 |
| Non-current liabilities | 4 477 740 | - |
| Current liabilities | 1 925 824 | 58 053 |
| | 6 403 564 | 58 053 |

The average lease term is 3 years and the average effective borrowing rate was 10% (2014: 12%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

| | | |
|--|------------------|------------------|
| Unspent conditional grants and receipts | | |
| Department of Water Affairs | 2 891 792 | - |
| Expanded Public Work Programme | 209 956 | 86 478 |
| Library Grant | 282 291 | 363 506 |
| Energy efficiency and demand side management grant | - | 3 000 000 |
| North South Local Government Corporate | - | 494 665 |
| Disaster Management Grant | 1 809 634 | 1 809 634 |
| | 5 193 673 | 5 754 283 |

Movement during the year

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 5 754 283 | 40 150 949 |
| Additions during the year | 256 870 972 | 244 670 399 |
| Income recognition during the year | (257 431 582) | (279 067 065) |
| | 5 193 673 | 5 754 283 |

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

See note 23 for reconciliation of grants.

These amounts are invested in a ring-fenced investment until utilised.

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|-----------------|------|------|
|-----------------|------|------|

16. Provisions

Reconciliation of provisions - 2015

| | Opening Balance | Interest charge | Change in provision for landfill closure | Total |
|--|--------------------|--------------------|---|------------|
| Provision for the restoration of landfill site | 15 129 957 | 278 203 | 1 746 666 | 17 154 826 |

Reconciliation of provisions - 2014

| | Opening Balance | Interest charge | Change in provision for landfill closure | Total |
|--|--------------------|--------------------|---|------------|
| Provision for the restoration of landfill site | 9 655 954 | 205 408 | 5 268 595 | 15 129 957 |

Key financial assumptions used for the valuation of the closure costs for the Hartebeesfontein landfill site are as follow:

| | | |
|------------------------------|-------|-------|
| CPI | 4.13% | 6.27% |
| Discount rate | 6.38% | 8.52% |
| Nett effective discount rate | 2.25% | 2.25% |

It is estimated that the landfill site has a remaining useful life of 6 years.

Environmental rehabilitation provision

The estimate is in respect of the landfill site currently in operation. The landfill site needs to be rehabilitated in 2021.

17. Payables from exchange transactions

| | | |
|-------------------------------|--------------------|--------------------|
| Trade payables | 279 086 600 | 125 125 955 |
| Payments received in advanced | 84 650 969 | 77 994 891 |
| Retentions | 36 690 063 | 29 998 038 |
| Unallocated deposits | 9 639 261 | 7 128 580 |
| Other payables | 4 704 220 | 6 176 504 |
| | 414 771 113 | 246 423 968 |

18. Payables from non-exchange transactions

| | | |
|-------------------------------|-------------------|-------------------|
| Accrued bonus | 6 356 272 | 6 077 336 |
| Accrued leave pay | 19 989 822 | 19 728 550 |
| Salaries third party payments | 474 561 | 12 498 776 |
| | 26 820 655 | 38 304 662 |

19. Consumer deposits

| | | |
|-------------------|------------|------------|
| Consumer deposits | 12 942 101 | 12 922 478 |
|-------------------|------------|------------|

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|------------------------------------|----------------------|----------------------|
| 20. Revenue | | |
| Service charges | 574 162 365 | 492 531 889 |
| Rental of facilities and equipment | 609 731 | 582 630 |
| Interest received (trading) | 64 767 525 | 44 417 978 |
| Licences and permits | 5 438 102 | 4 554 531 |
| Commissions received | 9 605 630 | 8 963 833 |
| Other income | 12 796 665 | 16 253 683 |
| Interest received - investment | 3 750 086 | 3 442 116 |
| Property rates | 312 009 861 | 193 598 617 |
| Government grants & subsidies | 624 667 582 | 550 271 966 |
| Fines | 2 098 780 | 2 469 180 |
| | 1 609 906 327 | 1 317 086 423 |

The amount included in revenue arising from exchanges of goods or services are as follows:

| | | |
|------------------------------------|--------------------|--------------------|
| Service charges | 574 162 365 | 492 531 889 |
| Rental of facilities and equipment | 609 731 | 582 630 |
| Interest received (trading) | 64 767 525 | 44 417 978 |
| Licences and permits | 5 438 102 | 4 554 531 |
| Commissions received | 9 605 630 | 8 963 833 |
| Other income | 12 796 665 | 16 253 683 |
| Interest received - investment | 3 750 086 | 3 442 116 |
| | 671 130 104 | 570 746 660 |

The amount included in revenue arising from non-exchange transactions is as follows:

| | | |
|---------------------------------|--------------------|--------------------|
| Taxation revenue | | |
| Property rates | 312 009 861 | 193 598 617 |
| Transfer revenue | | |
| Government grants and subsidies | 624 667 582 | 550 271 966 |
| Fines | 2 098 780 | 2 469 180 |
| | 938 776 223 | 746 339 763 |

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|-----------------|------|------|
|-----------------|------|------|

21. Property rates

Rates received

| | | |
|--------------------------|--------------------|--------------------|
| Residential | 202 644 148 | 125 951 342 |
| Commercial | 93 034 165 | 48 872 399 |
| State | 7 762 148 | 7 210 350 |
| Municipal | - | - |
| Small holdings and farms | 8 569 400 | 11 564 526 |
| | 312 009 861 | 193 598 617 |

Valuations

| | | |
|--------------------------|-----------------------|-----------------------|
| Residential | 17 341 431 813 | 16 559 408 810 |
| Commercial | 4 664 415 446 | 2 986 475 700 |
| State | 1 321 367 696 | 3 877 332 511 |
| Municipal | 1 429 501 150 | 280 418 000 |
| Small holdings and farms | 5 472 637 195 | 5 869 687 900 |
| | 30 229 353 300 | 29 573 322 921 |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 01 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0,011954 (2014: R0,011954) is applied to property valuations to determine assessment rates. Rebates of R20 000 plus 30% additional rabetes (2014: R20 000 plus 30%) are granted to residential and 83% plus 60% additional rates (2014: 83% plus 60%) state property owners.

22. Service charges

| | | |
|---------------------------------|--------------------|--------------------|
| Sale of electricity | 395 926 096 | 358 589 938 |
| Sale of water | 117 260 199 | 80 876 255 |
| Sewerage and sanitation charges | 30 703 103 | 22 986 334 |
| Refuse removal | 30 272 967 | 30 079 362 |
| | 574 162 365 | 492 531 889 |

23. Government grants and subsidies

Operating grants

| | | |
|------------------------------------|--------------------|--------------------|
| Equitable share | 367 236 000 | 308 470 000 |
| Finance management grant | 1 600 000 | 1 550 000 |
| Municipal system improvement grant | 934 000 | 890 000 |
| | 369 770 000 | 310 910 000 |

Capital grants

| | | |
|--|--------------------|--------------------|
| Expanded public works programme | 2 164 522 | 2 486 777 |
| Municipal infrastructure grant | 233 615 000 | 220 456 238 |
| Department of water affairs and forestry | 7 108 208 | 8 650 000 |
| Intergrated national electrification | 8 000 000 | 3 000 000 |
| Library grants | 481 215 | 836 494 |
| Disaster management grant | - | 2 853 822 |
| Energy efficiency and demand side management grant | 3 000 000 | - |
| Accelerated community infrastructure project | - | 1 000 000 |
| North south local government corporate | 528 637 | 78 635 |
| | 254 897 582 | 239 361 966 |
| | 624 667 582 | 550 271 966 |

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23. Government grants and subsidies (continued)

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Department of Water Affairs and Forestry

| | | |
|---|------------------|-------------|
| Balance unspent at beginning of year | - | 108 929 |
| Current-year receipts | 10 000 000 | 8 650 000 |
| Conditions met - transferred to revenue | (7 108 208) | (8 650 001) |
| Equitable share(held back) | - | (108 928) |
| | 2 891 792 | - |

To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Conditions still to be met - remain liabilities (see note 15).

Finance Management Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 1 600 000 | 1 550 000 |
| Conditions met - transferred to revenue | (1 600 000) | (1 550 000) |
| | - | - |

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The conditions of the grant were met. No funds have been withheld.

Municipal Systems Improvement Grant

| | | |
|---|-----------|-----------|
| Current-year receipts | 934 000 | 890 000 |
| Conditions met - transferred to revenue | (934 000) | (890 000) |
| | - | - |

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies. The conditions of the grant were met. No funds have been withheld.

Expanded Public Works Programme

| | | |
|---|----------------|---------------|
| Balance unspent at beginning of year | 86 478 | 1 522 326 |
| Current-year receipts | 2 288 000 | 2 573 000 |
| Conditions met - transferred to revenue | (2 164 522) | (2 486 522) |
| Equitable share (held back) | - | (1 522 326) |
| | 209 956 | 86 478 |

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Conditions still to be met - remain liabilities (see note 15).

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| 23. Government grants and subsidies (continued) | | |
| Library Grant | | |
| Balance unspent at beginning of year | 363 506 | 800 000 |
| Current-year receipts | 400 000 | 400 000 |
| Conditions met - transferred to revenue | (481 215) | (836 494) |
| | 282 291 | 363 506 |

To transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through arecapitalised programme at provincial level in support of national and local government initiatives.

Conditions still to be met - remain liabilities (see note 15).

Municipal Infrastructure Grant

| | | |
|---|---------------|---------------|
| Balance unspent at beginning of year | - | 35 456 238 |
| Current-year receipts | 233 615 000 | 220 456 238 |
| Conditions met - transferred to revenue | (233 615 000) | (220 456 238) |
| Equitable share (held back) | - | (35 456 238) |
| | - | - |

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

During the 2010/2011 financial the Municipality submitted an application to the National Treasury for the rollover of unspent Municipal Infrastructure Grant which was denied. The amount was to be paid back in two installment which will be paid by holding back of a portion of the equitable share. During 2012/2013 an amount of R76 120 000 was held back on the equitable share. The remaining amount of R35 456 238 was held back during the 2013/2014 allocation of the equitable share.

Conditions still to be met - remain liabilities (see note 15).

Energy efficiency and demand side management grant

| | | |
|---|-------------|------------------|
| Balance unspent at beginning of year | 3 000 000 | - |
| Current-year receipts | - | 3 000 000 |
| Conditions met - transferred to revenue | (3 000 000) | - |
| | - | 3 000 000 |

Conditions still to be met - remain liabilities (see note 15).

Integrated National Electrification Programme

| | | |
|---|-------------|-------------|
| Current-year receipts | 8 000 000 | 3 000 000 |
| Conditions met - transferred to revenue | (8 000 000) | (3 000 000) |
| | - | - |

This grant is intended to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply. The conditions of the grant were met. No funds have been withheld.

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| 23. Government grants and subsidies (continued) | | |
| Accelerated community infrastructure project | | |
| Current-year receipts | - | 1 000 000 |
| Conditions met - transferred to revenue | - | (1 000 000) |
| | - | - |
| Conditions still to be met - remain liabilities (see note 15). | | |
| North South Local Government Corporate | | |
| Balance unspent at beginning of year | 494 665 | - |
| Current-year receipts | 33 972 | 573 300 |
| Conditions met - transferred to revenue | (528 637) | (78 635) |
| | - | 494 665 |
| Conditions still to be met - remain liabilities (see note 15). | | |
| Disaster Management Grant | | |
| Balance unspent at beginning of year | 1 809 634 | 2 263 456 |
| Current-year receipts | - | 2 400 000 |
| Conditions met - transferred to revenue | - | (2 853 822) |
| | 1 809 634 | 1 809 634 |
| This grant is intended to provide for immediate release of funds for disaster response. | | |
| Conditions still to be met - remain liabilities (see note 15). | | |
| Changes in level of government grants | | |
| Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years. | | |
| 24. Other income | | |
| Advertising hoarding | 44 985 | 98 535 |
| Cemetery fees | 915 920 | 931 820 |
| Insurance commission | 2 687 004 | 513 136 |
| Notice fees | 1 792 176 | 3 890 721 |
| Other income | 206 958 | 269 118 |
| Stock Surpluses | 308 558 | 59 912 |
| Bulk services | 71 007 | 460 568 |
| Clearance certificates | 133 320 | 134 344 |
| Refuse dumping fees | 467 709 | 642 696 |
| Building plans | 1 057 675 | 1 263 865 |
| Reconnection fees | 2 915 586 | 6 238 109 |
| Refuse removal departmental sales | 403 467 | 404 067 |
| Service connections | 298 643 | 381 650 |
| Servitude income | 81 934 | 393 684 |
| Tender document fees | 1 099 009 | 291 832 |
| Town planning | 290 904 | 236 858 |
| Valuation fees | 21 810 | 42 768 |
| | 12 796 665 | 16 253 683 |

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| 25. General expenses | | |
| Advertising | 933 341 | 1 005 371 |
| Auditors remuneration | 3 066 689 | 4 431 321 |
| Bank charges | 2 611 836 | 2 912 122 |
| Consulting and professional fees | 23 020 940 | 22 121 183 |
| Consumables | 444 535 | 2 035 530 |
| Debt collection | 509 512 | 882 380 |
| Discount allowed | 23 151 828 | - |
| Refreshments | 303 282 | 563 512 |
| Grant expenses | 2 674 845 | 903 945 |
| Telemetry | 28 292 | 623 800 |
| Insurance | 5 117 758 | 3 867 051 |
| Community development and training | 169 200 | 392 928 |
| Conferences and seminars | 171 162 | 298 497 |
| Geographical information system | 12 658 | 610 766 |
| Lease rentals on operating lease | 13 405 331 | 21 294 497 |
| Marketing | 9 300 | 31 521 |
| Medical expenses | 204 167 | 108 800 |
| Motor vehicle expenses | 387 127 | 343 914 |
| Water and electricity | 11 814 564 | 20 880 413 |
| Printing and stationery | 1 527 965 | 1 663 002 |
| Protective clothing | 670 282 | 605 038 |
| Subscriptions and membership fees | 289 013 | 2 371 127 |
| Telephone and fax | 3 937 643 | 4 545 675 |
| Transport - Fuel | 5 687 937 | 4 487 072 |
| Training | 1 422 769 | 2 284 320 |
| Travel and accomodation | 3 004 877 | 3 371 796 |
| Refuse | 638 026 | 1 086 260 |
| Formalisation of townships | 6 016 483 | 105 645 |
| Licence fees | 2 189 770 | 1 444 044 |
| Stock written off | 100 024 | 169 356 |
| Training levy | 2 912 217 | 4 904 288 |
| Other expenses | 514 383 | 946 792 |
| Printing of statements | 3 046 373 | 2 383 032 |
| Projects | 12 529 272 | 6 866 808 |
| Social programmes | 8 872 379 | 4 798 223 |
| Chemicals | 11 237 353 | 8 187 814 |
| Compensation insurance | 1 517 490 | 5 174 547 |
| Mobile chemical toilets | 1 249 930 | 795 060 |
| | 155 400 553 | 139 497 450 |

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| 26. Employee related costs | | |
| Acting allowances | 4 110 806 | 3 215 957 |
| Basic | 173 195 272 | 153 982 223 |
| 13th cheques | 14 040 448 | 13 636 086 |
| Housing benefits and allowances | 1 194 917 | 1 078 667 |
| Industrial council | 78 207 | 72 035 |
| Leave pay provision charge | 7 570 579 | 10 744 860 |
| Medical aid - company contributions | 23 940 822 | 21 138 550 |
| Overtime payments | 31 843 341 | 27 639 219 |
| Provident and pension fund | 47 220 524 | 41 375 590 |
| Stand by allowances | 1 979 732 | 1 727 230 |
| Transitional allowances | 11 290 | 14 004 |
| Telephone/celephone allowance | 280 355 | 314 280 |
| Travel allowances | 17 686 541 | 16 087 274 |
| UIF | 1 604 432 | 1 498 519 |
| | 324 757 266 | 292 524 494 |
| Remuneration of municipal manager | | |
| Annual remuneration | 1 022 553 | 958 313 |
| Allowances | 207 684 | 194 437 |
| Contributions | 209 629 | 195 801 |
| | 1 439 866 | 1 348 551 |
| Remuneration of chief financial officer | | |
| Annual remuneration | 1 058 801 | 837 179 |
| Allowances | 321 795 | 353 649 |
| Contributions | 24 189 | 1 860 |
| | 1 404 785 | 1 192 688 |
| Remuneration of chief operating officer | | |
| Annual remuneration | 1 024 213 | 861 120 |
| Allowances | 118 057 | 166 116 |
| Contributions | 173 253 | 161 255 |
| | 1 315 523 | 1 188 491 |
| Remuneration of director community services | | |
| Annual remuneration | 757 192 | 708 391 |
| Allowances | 227 472 | 213 000 |
| Contributions | 185 449 | 176 953 |
| | 1 170 113 | 1 098 344 |
| Remuneration of director corporate support services | | |
| Annual remuneration | 718 787 | 763 900 |
| Allowances | 190 269 | 178 140 |
| Contributions | 182 167 | 120 237 |
| | 1 091 223 | 1 062 277 |
| Remuneration of director public safety | | |

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| 26. Employee related costs (continued) | | |
| Annual remuneration | 754 975 | 744 968 |
| Allowances | 190 242 | 178 080 |
| Contributions | 151 312 | 181 084 |
| | 1 096 529 | 1 104 132 |

Remuneration of director infrastructure and technical services

| | | |
|---------------------|------------------|------------------|
| Annual remuneration | 1 023 084 | 715 655 |
| Allowances | 292 702 | 228 308 |
| Contributions | 231 801 | 187 447 |
| | 1 547 587 | 1 131 410 |

Remuneration of director local economic development

| | | |
|---------------------|------------------|------------------|
| Annual remuneration | 813 887 | 864 063 |
| Allowances | 146 165 | 117 128 |
| Contributions | 151 416 | 127 462 |
| | 1 111 468 | 1 108 653 |

Remuneration of director human settlement

| | | |
|---------------------|------------------|------------------|
| Annual remuneration | 734 646 | 674 925 |
| Allowances | 200 628 | 178 113 |
| Contributions | 188 225 | 180 303 |
| | 1 123 499 | 1 033 341 |

27. Remuneration of councillors

| | | |
|---------------------------|-------------------|-------------------|
| Executive mayor | 751 460 | 735 515 |
| Speaker | 619 708 | 584 177 |
| Single whip | 580 390 | 548 971 |
| Mayoral committee members | 6 141 643 | 5 276 713 |
| Councillors | 14 312 418 | 16 741 811 |
| | 22 405 619 | 23 887 187 |

The remuneration of the councillors, directors and officials salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

Remuneration of advisor - office of executive mayor

| | | |
|---|------------------|------------------|
| Annual remuneration | 945 540 | 886 029 |
| Car allowance | 175 248 | 164 084 |
| Contributions to UIF, medical and pension funds | 1 866 | 1 860 |
| | 1 122 654 | 1 051 973 |

28. Debt impairment

| | | |
|-----------------------|-------------------|-------------------|
| Debt impairment | 54 801 795 | 4 098 842 |
| Bad debts written off | 30 524 182 | 74 289 493 |
| | 85 325 977 | 78 388 335 |

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| 29. Investment revenue | | |
| Interest revenue | | |
| Investments | 3 115 723 | 2 568 437 |
| Bank | 634 363 | 873 679 |
| | 3 750 086 | 3 442 116 |
| | - | - |
| | 3 750 086 | 3 442 116 |
| 30. Fair value adjustments | | |
| Investment property (Fair value model) | (185 277 266) | - |
| Other financial assets | | |
| • Other financial assets (Fair value) | 614 057 | 762 814 |
| | (184 663 209) | 762 814 |
| 31. Depreciation and impairment | | |
| Property, plant and equipment | 600 426 841 | 602 559 614 |
| 32. Impairment of assets | | |
| Impairments | | |
| Property, plant and equipment | 132 121 327 | - |
| 33. Finance costs | | |
| Non-current borrowings | 89 104 948 | 78 694 852 |
| Trade and other payables | 141 390 | - |
| Finance leases | - | 58 844 |
| Bank overdraft | - | 3 |
| Landfill site | 278 203 | 205 408 |
| Defined benefit plan | 11 599 161 | 9 377 000 |
| | 101 123 702 | 88 336 107 |
| Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2014: R -). | | |
| 34. Auditors' remuneration | | |
| Fees | 2 294 768 | 3 992 670 |
| Forensic Audit | 500 000 | - |
| Expenses | 271 921 | 438 651 |
| | 3 066 689 | 4 431 321 |

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| 35. Contracted services | | |
| Waste removal | 30 214 847 | 32 163 323 |
| Meter readings | 1 287 728 | 1 413 480 |
| Water tankers | 12 556 454 | 16 558 857 |
| Information technology services | 12 209 223 | 11 614 057 |
| Installation of pre-paid electricity meters | 36 306 397 | 1 699 552 |
| Valuation roll | 5 958 794 | 7 829 814 |
| Pre-paid electricity sales | 19 600 681 | 12 220 961 |
| Security services | 29 867 070 | 32 251 221 |
| Other contractors | 5 967 912 | 15 119 703 |
| | 153 969 106 | 130 870 968 |
| 36. Bulk purchases | | |
| Electricity | 361 132 347 | 353 574 213 |
| Water | 130 101 691 | 65 612 273 |
| | 491 234 038 | 419 186 486 |
| 37. Cash generated from operations | | |
| Surplus / (deficit) | (729 887 655) | (530 690 388) |
| Adjustments for: | | |
| Depreciation and impairment | 600 426 841 | 602 559 614 |
| Loss on provision for landfill closure | 1 746 666 | 5 268 595 |
| Finance cost - Landfill closure | 278 203 | 205 408 |
| Fair value adjustments | 184 663 209 | (762 814) |
| Finance costs - Finance leases | - | 58 844 |
| Discount allowed | 23 151 828 | - |
| Impairment deficit | 132 121 327 | - |
| Debt impairment | 85 325 977 | 78 388 335 |
| Movement in post employee benefit obligation | 13 086 391 | 20 367 488 |
| Interest received (trading) | (64 767 525) | (44 417 978) |
| Inventory surpluses | (308 558) | (59 912) |
| Finance cost - non cash PIC loan | 89 104 948 | 78 694 852 |
| Assets written off | 11 399 504 | 263 225 |
| Inventory written off | 100 024 | 169 356 |
| Changes in working capital: | | |
| Inventories | (4 614 715) | (1 119 324) |
| Consumer receivable | (162 458 880) | (57 736 115) |
| Receivable from exchange transactions | (50 259 592) | (38 353 247) |
| VAT payable | (37 369 280) | (1 678 286) |
| Payables from exchange transactions | 168 347 144 | 40 048 472 |
| VAT receivable | - | - |
| Payables from non-exchange transactions | (11 484 007) | 38 304 662 |
| Unspent conditional grants and receipts | (560 610) | (34 396 666) |
| Consumer deposits | 19 623 | (32 298) |
| | 248 060 863 | 155 081 823 |

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|--|------------|------------|
| 38. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 50 388 713 | 50 211 207 |
| Not yet contracted for and authorised by accounting officer | | |
| • Property, plant and equipment | 14 328 339 | 8 727 079 |

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

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39. Contingencies

The municipality received summons in which Bridget Ranaana alleges that her minor child suffered serious injuries as result of the municipality's negligence to take care of the electrical wires on the road of Phase 3 at Oukasie. The plaintiff claim an amount of R 100 000 against the municipality. The matter has been postponed to allow the plaintiff to submit the medical report.

Elsabie Christina Vivian is claiming an amount of R 50 000 for injuries she suffered and medical expenses she incurred by falling down and injuring the whole of her left side due to a fault in the road at 33 Murray Street, Brits. The matter has been postponed to allow the plaintiff to submit medical report.

On the 25th May 2012 summons were served to the municipality wherein Izma Beleggings (Pty) Ltd is seeking an order directing the municipality to pay an amount of R 5 000 000 to the transferring attorneys in terms of the agreement of sale of property entered into and signed by the parties. The municipality instructed Gildenhuys Lessing & Malatji attorneys to defend the matter.

The municipality received summons for payment of R4 009 585 which GR Makopo CC alleged to be for compensation for breach of contract by the municipality.

The municipality received summons for payment of R5 098 902 which Hloyisane Electrical Technologies alleged to be for services rendered to the municipality.

On 12th April 2007 the municipality and Traffic Management Technologies entered into a written agreement for the provision of a comprehensive back office for traffic administration, TMT summons for payment of R3 260 400 which is alleged to be for breach of contract.

On the 20th July 2005, the municipality entered into a contract with MK Construction for providing civil engineering services in Oukasie Ext 5 and Environs. It is alleged that the municipality cancelled the contract on the 30th May 2008 due to lack of performance without terms of warning. As a result of the municipality's failure to comply with its undertaking, MK Construction issued summons against the Municipality for a payment amount of R1 714 328 which is alleged to be damages suffered by the plaintiff.

The municipality received summons for payment of R1 102 902 which Sechaba Traffic Solutions CC alleged to be for commission on traffic fines collected.

The municipality received summons for payment of R1 011 652 which Dombo, Du Plessis and Nzhelele Resources alleged to be for professional services rendered to the municipality.

Summons were served to the Municipality wherein Mr. Norman Van Rheede is claiming an amount of R16 774 which is for damage to his vehicle allegedly caused by collision with a pot hole at Old Rustenburg Road, near Brits Pale, Hartbeesspoort.

Summons were served to the Municipality wherein Mr. De Bruyn is claiming an amount of R250 000 which is alleged to be for losses suffered as a result of the Municipality's breach of its statutory and/or legal duty to erect a stop sign and/or to maintain the road signs and to ensure the visibility of warning signs amongst.

On the 13th April 2012, Oppcrete Property Development Company (Pty) Ltd issued summons claiming an amount of R5 411 581 which is alleged to be losses suffered as a result of the setting aside of section 82 certificate by the Municipality

On the 06th January 2014, the Municipality was served with summons wherein Sobek engineering (Pty) Ltd is claiming a total amount of R7 878 689 plus interest calculated at the rate of 15.5% per annum which is alleged to be for service rendered and cancellation of contract respectively.

Telkom sues the municipality R42 575 together with interests as an amount for the alleged damaged of the plaintiff's telecommunication lines at stand no. 46 Mothutlung, Brits.

Telkom sues the municipality R14 076 as an amount for damaging of telecommunication lines at Stand no 410 Mothutlung, Brits.

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39. Contingencies (continued)

Telkom sues the municipality R28 787 as an amount for alleged damaging of telecommunication lines at stand no 1880 Hebron Road.

Telkom issued a letter of demand claiming R24 317 as repair costs for underground cable at E74 Klipgat allegedly damaged by Madibeng Municipality employees.

Summons were issued by S Sechabela against the municipality for damages in the sum of R250 000.

Around March 2010, PIC issued summons against the Municipality for the payment of the following amounts;

1. R129 738 079 together with interests on capital component of R76 490 339;
2. R56 234 978 together with interests on capital component of 34 062 561; and
3. R132 704 547 together with interests on capital component of R80 447 101.

As at 30 June 2015, the aforesaid amount has risen to the total of R772 450 315

On the 31 July 2014, Lance Management Services issued summons for a payment amounting to R1 829 855.71 which is alleged to be for losses suffered due to termination of contract.

40. Related parties

Relationships

Remuneration of key management personnel

Refer to note 25 & 26 on compensation to Municipal Manager, Chief Financial Officer, Senior Managers, Mayoral Committee and Other Councillors

41. Change in estimate

Property, plant and equipment

The useful lives of other property, plant and equipment were reviewed during the year due to the assets being used for a period longer than the initial estimates. The changes per category are as follows:

| Category | Old useful life (years) | New useful life (years) |
|------------------------|----------------------------|----------------------------|
| Bins and containers | 7 - 10 | 7 - 15 |
| Computer equipment | 3 - 5 | 3 - 12 |
| Furniture and fittings | 7 - 10 | 5 - 17 |
| Motor vehicles | 5 - 7 | 5 - 15 |
| Office equipment | 3 - 5 | 3 - 12 |
| Plant and equipment | 5 - 7 | 5 - 17 |

The effect of this revision has increase the carrying amount of the assets by R4 506 832 and decreased the depreciation charges for the current and future periods by R1 553 739.

42. Prior period errors

The correction of the error(s) results in adjustments as follows:

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| 42. Prior period errors (continued) | | |
| Statement of Financial Performance | | |
| Revenue | - | - |
| Services charges (reversal of overcharged water account) | - | 7 544 625 |
| Services charges (recognition of bulk refuse for april, may and june) | - | (542 456) |
| Expenses | - | - |
| Debt impairment (correction of debtors incorrectly written off) | - | 17 694 998 |
| Finance cost (correction of interest on loan incorrectly calculated by the bank) | - | 473 644 |
| General expenses (correction of inventory written-off incorrectly reversed) | - | (15 261) |
| Contracted services (recognition of pre-paid meter installation costs) | - | (1 699 552) |
| Depreciation and amortization (recognition of depreciation on municipal assets during unbundling of assets) | - | (203 269 755) |
| Depreciation and amortization (recognition of depreciation on assets not previously included in the assets register) | - | (564 186) |
| Personnel (correction of leave payouts incorrectly accrued in the prior year) | - | 2 889 |
| | - | - |
| Statement of Financial Position | | |
| Inventory (correction of inventory written-off incorrectly reversed) | - | (15 261) |
| Inventory (Recognition of RDP houses not yet transfered to the relevant owners) | - | 10 318 |
| VAT receivable (Correction of expenses incorrectly captured R8 327 155 and reclassification from payable R1 680 691) | - | (2 513 092) |
| Receivables from non-exchange transactions (correction of indigents debtors incorrectly written off) | - | 19 789 956 |
| Receivables from non-exchange transactions (allocation of payments made prior to year end) | - | (33 770) |
| Consumer receivables (reversal of overcharged water account) | - | (5 700 597) |
| Consumer receivables (recognition of bulk refuse for april, may and june) | - | 618 400 |
| Investment property (transfer of assets to property, plant and equipment) | - | (9 190 000) |
| Property, plant and equipment (correction of assets on further unbundling of assets) | - | 2 743 459 450 |
| Property, plant and equipment (assets take-on of moveable assets) | - | 4 703 350 |
| Payables from exchange transaction (recognition of prepaid meter installation cost) | - | 1 937 489 |
| Payables from exchange transaction (correction of journal incorrectly passed) | - | (36 376) |
| Payables from exchange transaction (reclassification to VAT) | - | 1 680 691 |
| Payables from exchange transaction (allocation of payment made prior to year end) | - | (52 880) |
| Payables from exchange transaction (correction of leave payout incorrectly raised) | - | (2 889) |
| VAT payable (Correction of expenses incorrectly captured R8 327 155 and reclassification from payable R1 680 691) | - | 4 133 372 |
| VAT payable (reversal of overcharged water account) | - | (700 073) |
| VAT payable (recognition of bulk refuse for april, may and june) | - | 75 944 |
| Other financial liabilities (correction of PIC loan overstated) | - | (3 605 692) |
| Other financial liabilities (correction of interest on PIC loan incorrectly calculated by the bank) | - | (473 644) |
| Accumulated surplus (assets take-on of moveable assets) | - | 4 703 350 |
| Accumulated surplus (Correction of expenses incorrectly captured to the VAT suspense account) | - | (6 470 134) |
| Accumulated surplus (correction of journal incorrectly passed) | - | 36 376 |
| Accumulated surplus (Recognition of RDP houses not yet transfered to the relevant owners) | - | 10 318 |
| Accumulated surplus (correction of PIC loan overstated) | - | 3 605 692 |
| Accumulated surplus (reversal of overcharged water account) | - | (2 544 101) |
| Accumulated surplus (recognition of property, plant and equipment on further unbundling of assets) | - | 2 750 705 275 |

43. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

43. Risk management (continued)

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Credit risk

Credit Risk related to consumer debtors is managed in accordance with the Council's credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2015 | 2014 |
|--|-------------|------------|
| Other financial assets | 15 216 682 | 14 767 589 |
| Consumer Debtors | 169 912 168 | 65 884 709 |
| Receivable from non-exchange transaction | 96 724 070 | 51 748 552 |
| Cash and cash equivalents | 25 202 856 | 31 636 027 |

44. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had deficits of R 729 887 655 and that the municipality's total current liabilities exceed its current assets by R 115 889 899.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

A council **Resolution A.0746** dated 04 August 2015 approved the secondment of Mr. M Juta (Municipal Manager) as Acting Municipal Manager of Ditsobotla Local Municipality. Mr. ME Manaka has since been appointed as the Acting Municipal Manager.

Mr. M Juta is currently earning a salary as Municipal Manager from the Municipality without performing any duties. This will result in fruitless and wasteful expenditure of R114 447.75 per month for the 2015/2016 financial year.

This is a non-adjusting event.

46. Unauthorised expenditure

| | | |
|---|----------------------|--------------------|
| Opening balance | 444 856 365 | - |
| Unauthorised expenditure - overspending | 1 257 503 564 | 444 856 365 |
| | 1 702 359 929 | 444 856 365 |

Unauthorised expenditure where not condoned by council during the financial year.

47. Fruitless and wasteful expenditure

| | | |
|---|------------------|------------------|
| Fruitless and wasteful expenditure - opening balance | 1 649 521 | 168 978 |
| Fruitless and wasteful expenditure - Interest on overdue accounts | 6 383 739 | 1 480 543 |
| | 8 033 260 | 1 649 521 |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|--|--------------------|
| 48. Irregular expenditure | | |
| Opening balance | 364 426 141 | 151 884 694 |
| Add: Irregular Expenditure - current year | 243 847 591 | 212 541 447 |
| | 608 273 732 | 364 426 141 |
| Analysis of expenditure awaiting condonation per age classification | | |
| Current year | 243 847 591 | 212 541 447 |
| Prior years | 364 426 141 | 151 884 694 |
| | 608 273 732 | 364 426 141 |
| Details of irregular expenditure – current year | | |
| | Disciplinary steps taken/criminal proceedings | |
| The irregular expenditure relates to goods and services that were purchased outside the normal procurement processes. | No steps were taken | 243 847 591 |
| 49. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 3 674 605 | 2 140 335 |
| Audit fees | | |
| Opening balance | 425 940 | 26 165 |
| Current year fee | 3 066 689 | 4 551 405 |
| Amount paid - current year | (3 492 629) | (4 151 630) |
| | - | 425 940 |
| PAYE and UIF | | |
| Opening balance | 3 412 873 | - |
| Current year fee | 49 504 971 | 40 312 397 |
| Amount paid - current year | (52 917 844) | (36 899 524) |
| | - | 3 412 873 |
| Pension and Medical Aid Deductions | | |
| Opening balance | 6 852 456 | - |
| Current year fee | 96 669 747 | 80 509 335 |
| Amount paid - current year | (103 522 203) | (73 656 879) |
| | - | 6 852 456 |
| VAT | | |
| VAT receivable | 33 860 037 | - |
| VAT payable | - | 3 509 243 |
| | 33 860 037 | 3 509 243 |

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---------------|--|--|----------------|
| Klass S | 2 179 | 12 345 | 14 524 |
| Lekoane S | 1 828 | 4 231 | 6 059 |
| Maakane P | 76 | 3 682 | 3 758 |
| Makhongela PB | 1 065 | 53 267 | 54 332 |
| Maunatlala SM | 52 | 2 532 | 2 584 |
| Mogotsi RK | 2 482 | 25 315 | 27 797 |
| Nqetho MC | 2 078 | 7 488 | 9 566 |
| Molefe WS | 4 094 | 37 841 | 41 935 |
| Motepe FJ | 2 559 | 41 694 | 44 253 |
| Rossouw DF | 1 954 | 4 541 | 6 495 |
| Nkosi I | 2 098 | 17 947 | 20 045 |
| Strauss WI | 2 567 | 73 026 | 75 593 |
| Tlhopane M | 2 663 | 8 576 | 11 239 |
| Tsotetsi TPJ | 74 | 3 632 | 3 706 |
| Nthangeni SDN | 76 | 3 682 | 3 758 |
| Ntshabele KS | 74 | 3 632 | 3 706 |
| | 25 919 | 303 431 | 329 350 |

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

| | | |
|------------------|-------------|--------------|
| Current year | 4 566 822 | 25 819 056 |
| Noted by council | (4 566 822) | (25 819 056) |
| | - | - |

50. Assets subject to restrictions

No assets that have been recognised which are subject to restrictions.

51. Distribution losses

Electricity

| Year | Unit purchased | Units sold | Loss in units | Loss in percentage |
|------------|----------------|----------------|----------------|--------------------|
| 2015/06/30 | 481 974 368,00 | 328 173 359,00 | 153 801 009,00 | 31,91 % |
| 2014/06/30 | 493 339 663,00 | 408 717 301,00 | 84 622 362,00 | 17,15 % |

Electricity distribution loss calculated value amounts to R190 400 605 (2014: R86 524 857)

Water

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | | 2015 | 2014 |
|--|-----------------|---------------|-------------------------------------|
| 51. Distribution losses (continued) | | | |
| Year | Units purchased | Units sold | Loss in units Loss in percentage |
| 2015/06/30 | 30 133 255,00 | 9 168 322,00 | 20 964 903,00 69,57 % |
| 2014/06/30 | 32 396 548,00 | 10 693 732,00 | 21 702 816,00 66,99 % |

Water distribution loss calculated value amounts to R269 311 919 (2014: R231 517 510)

Appendix A

Schedule of external loans as at 30 June 2013

| Loan Number | | Redeemable | Balance at 30 June 2014 Rand | Received during the period Rand | Redeemed written off during the period Rand | Interest Rand | Balance at 30 June 2015 Rand |
|----------------------------------|-----------------------|------------|---|--|---|----------------------|---|
| Development Bank of South Africa | | | - | - | - | - | - |
| Public Investment Corporation | | | | | | | |
| BR25 | BR25 | 30/06/2030 | 283 680 313 | - | - | 36 639 171 | 320 319 484 |
| BR26 | BR26 | 30/06/2030 | 273 542 749 | - | - | 35 174 176 | 308 716 925 |
| BR20 | BR20 | 30/06/2020 | 126 122 256 | - | - | 17 291 650 | 143 413 906 |
| | | | 683 345 318 | - | - | 89 104 997 | 772 450 315 |
| Lease liability | | | | | | | |
| Flame IT Strategy | Computer equipment | 30/06/2018 | - | 6 404 564 | - | - | 6 404 564 |
| | | | - | - | - | - | - |
| | | | - | - | - | - | - |
| | | | - | - | - | - | - |
| | | | - | - | - | - | - |
| | | | - | 6 404 564 | - | - | 6 404 564 |
| Total external loans | | | | | | | |
| Development Bank of South Africa | | | - | - | - | - | - |
| Public Investment Corporation | | | 683 345 318 | - | - | 89 104 997 | 772 450 315 |
| Lease liability | | | - | 6 404 564 | - | - | 6 404 564 |
| | | | 683 345 318 | 6 404 564 | - | 89 104 997 | 778 854 879 |

Appendix B

| Analysis of property, plant and equipment as at 30 June 2015 | |
|--|--------------------------|
| Cost/Revaluation | Accumulated depreciation |

| | Opening Balance Rand | Additions Rand | Disposals/writ e off Rand | Transfers Rand | Fair value adjustment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals/writ e off Rand | Other movements Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
|---|----------------------------|-----------------------|---------------------------------|-----------------------|----------------------------------|-------------------------------------|----------------------------|----------------------------|---------------------------------|----------------------------|--------------------------|-----------------------------|----------------------------|---------------------------|
| Land and buildings | | | | | | | | | | | | | | |
| Land | 811 057 726 | - | - | - | - | - | 811 057 726 | - | - | - | - | - | - | 811 057 726 |
| Buildings | 92 108 477 | - | - | 6 333 847 | - | - | 98 442 324 | (12 257 928) | - | - | (3 143 460) | - | (15 401 388) | 83 040 936 |
| | 903 166 203 | - | - | 6 333 847 | - | - | 909 500 050 | (12 257 928) | - | - | (3 143 460) | - | (15 401 388) | 894 098 662 |
| Infrastructure | | | | | | | | | | | | | | |
| Roads, Pavements, Storm water & Bridges | 4 735 076 575 | - | (143 578) | 64 331 804 | - | - | 4 799 264 801 | 2 069 904 592) | 59 815 | - | (521 475 873) | (120 697 672) | 2 712 018 322) | 2 087 246 479 |
| Electrical Networks | 2 501 307 388 | - | (11 400 000) | - | - | - | 2 489 907 388 | (256 022 422) | 1 901 004 | - | (64 367 787) | (10 884 750) | (329 373 955) | 2 160 533 433 |
| Sanitation | 28 894 239 | - | - | - | - | - | 28 894 239 | (2 637 054) | - | - | (658 813) | - | (3 295 867) | 25 598 372 |
| Water Supply Networks | 451 053 175 | - | - | - | - | - | 451 053 175 | (39 311 022) | - | - | (10 434 815) | (538 904) | (50 284 741) | 400 768 434 |
| Work in progress | 408 097 402 | 220 638 909 | - | (99 906 291) | - | - | 528 830 020 | - | - | - | - | - | - | 528 830 020 |
| | 8 124 428 779 | 220 638 909 | (11 543 578) | (35 574 487) | - | - | 8 297 949 623 | 2 367 875 090) | 1 960 819 | - | (596 937 288) | (132 121 326) | 3 094 972 885) | 5 202 976 738 |
| Community Assets | | | | | | | | | | | | | | |
| Community Facilities | 13 558 223 | - | - | 4 760 970 | - | - | 18 319 193 | (940 832) | - | - | (351 756) | - | (1 292 588) | 17 026 605 |
| Sports and Recreation Facilities | 4 665 034 | - | - | 5 707 623 | - | - | 10 372 657 | (552 571) | - | - | (231 872) | - | (784 443) | 9 588 214 |
| Community buildings | 26 511 916 | - | - | 18 772 047 | - | - | 45 283 963 | (2 819 837) | - | - | (1 058 079) | - | (3 877 916) | 41 406 047 |
| | 44 735 173 | - | - | 29 240 640 | - | - | 73 975 813 | (4 313 240) | - | - | (1 641 707) | - | (5 954 947) | 68 020 866 |

Appendix B

| Analysis of property, plant and equipment as at 30 June 2015 | |
|--|--------------------------|
| Cost/Revaluation | Accumulated depreciation |

| | Opening Balance Rand | Additions Rand | Disposals/writ e off Rand | Transfers Rand | Fair value adjustment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals/writ e off Rand | Other movements Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
|------------------------------------|----------------------------|-----------------------|---------------------------------|-----------------------|----------------------------------|-------------------------------------|----------------------------|----------------------------|---------------------------------|----------------------------|--------------------------|-----------------------------|----------------------------|---------------------------|
| | | | | | | | | | | | | | | |
| Heritage assets | | | | | | | | | | | | | | |
| Other | 10 100 | - | - | - | - | - | 10 100 | - | - | - | - | - | - | 10 100 |
| | 10 100 | - | - | - | - | - | 10 100 | - | - | - | - | - | - | 10 100 |
| Other assets | | | | | | | | | | | | | | |
| General vehicles | 11 191 067 | 5 644 356 | (592 482) | - | - | - | 16 242 941 | (5 706 106) | 503 217 | 1 698 175 | (1 233 642) | - | (4 738 356) | 11 504 585 |
| Plant & equipment | 4 815 223 | 403 110 | (56 583) | - | - | - | 5 161 750 | (3 817 238) | 35 864 | 2 727 987 | (291 557) | - | (1 344 944) | 3 816 806 |
| Computer Equipment | 4 716 959 | 370 944 | (6 429) | - | - | - | 5 081 474 | (2 132 652) | 8 863 | (1 409 109) | (404 334) | - | (3 937 232) | 1 144 242 |
| Furniture & Fittings | 17 986 890 | 423 664 | (3 604 298) | - | - | - | 14 806 256 | (7 784 184) | 1 964 755 | 756 584 | (866 039) | - | (5 928 884) | 8 877 372 |
| Office Equipment | 1 873 175 | 389 667 | (201 902) | - | - | - | 2 060 940 | (946 070) | 132 287 | 392 794 | (153 301) | - | (574 290) | 1 486 650 |
| Bins and Containers | 3 264 497 | 93 600 | - | - | - | - | 3 358 097 | (2 553 004) | - | 340 400 | (223 353) | - | (2 435 957) | 922 140 |
| | 43 847 811 | 7 325 341 | (4 461 694) | - | - | - | 46 711 458 | (22 939 254) | 2 644 986 | 4 506 831 | (3 172 226) | - | (18 959 663) | 27 751 795 |
| Total property plant and equipment | | | | | | | | | | | | | | |
| Land and buildings | 903 166 203 | - | - | 6 333 847 | - | - | 909 500 050 | (12 257 928) | - | - | (3 143 460) | - | (15 401 388) | 894 098 662 |
| Infrastructure | 8 124 428 779 | 220 638 909 | (11 543 578) | (35 574 487) | - | - | 8 297 949 623 | 2 367 875 090) | 1 960 819 | - | (596 937 288) | (132 121 326) | 3 094 972 885) | 5 202 976 738 |
| Community Assets | 44 735 173 | - | - | 29 240 640 | - | - | 73 975 813 | (4 313 240) | - | - | (1 641 707) | - | (5 954 947) | 68 020 866 |
| Heritage assets | 10 100 | - | - | - | - | - | 10 100 | - | - | - | - | - | - | 10 100 |
| Other assets | 43 847 811 | 7 325 341 | (4 461 694) | - | - | - | 46 711 458 | (22 939 254) | 2 644 986 | 4 506 831 | (3 172 226) | - | (18 959 663) | 27 751 795 |
| | 9 116 188 066 | 227 964 250 | (16 005 272) | - | - | - | 9 328 147 044 | 2 407 385 512) | 4 605 805 | 4 506 831 | (604 894 681) | (132 121 326) | 3 135 288 883) | 6 192 858 161 |
| Leased Assets | | | | | | | | | | | | | | |
| Computer equipment | - | 5 617 161 | - | - | - | - | 5 617 161 | - | - | - | (39 008) | - | (39 008) | 5 578 153 |
| | - | 5 617 161 | - | - | - | - | 5 617 161 | - | - | - | (39 008) | - | (39 008) | 5 578 153 |
| Intangible assets | | | | | | | | | | | | | | |
| Investment properties | | | | | | | | | | | | | | |
| Investment property | 457 151 266 | - | - | - | (185 277 266) | - | 271 874 000 | - | - | - | - | - | - | 271 874 000 |
| | 457 151 266 | - | - | - | (185 277 266) | - | 271 874 000 | - | - | - | - | - | - | 271 874 000 |
| Total | | | | | | | | | | | | | | |
| Land and buildings | 903 166 203 | - | - | 6 333 847 | - | - | 909 500 050 | (12 257 928) | - | - | (3 143 460) | - | (15 401 388) | 894 098 662 |
| Infrastructure | 8 124 428 779 | 220 638 909 | (11 543 578) | (35 574 487) | - | - | 8 297 949 623 | 2 367 875 090) | 1 960 819 | - | (596 937 288) | (132 121 326) | 3 094 972 885) | 5 202 976 738 |
| Community Assets | 44 735 173 | - | - | 29 240 640 | - | - | 73 975 813 | (4 313 240) | - | - | (1 641 707) | - | (5 954 947) | 68 020 866 |
| Heritage assets | 10 100 | - | - | - | - | - | 10 100 | - | - | - | - | - | - | 10 100 |
| Other assets | 43 847 811 | 7 325 341 | (4 461 694) | - | - | - | 46 711 458 | (22 939 254) | 2 644 986 | 4 506 831 | (3 172 226) | - | (18 959 663) | 27 751 795 |
| Leased Assets | - | 5 617 161 | - | - | - | - | 5 617 161 | - | - | - | (39 008) | - | (39 008) | 5 578 153 |
| Investment properties | 457 151 266 | - | - | - | (185 277 266) | - | 271 874 000 | - | - | - | - | - | - | 271 874 000 |
| | 9 573 339 332 | 233 581 411 | (16 005 272) | - | (185 277 266) | - | 9 605 638 205 | 2 407 385 512) | 4 605 805 | 4 506 831 | (604 933 689) | (132 121 326) | 3 135 327 891) | 6 470 310 314 |

Appendix B

| Analysis of property, plant and equipment as at 30 June 2015 | | | | | | | | | | | | | |
|--|-------------------|---------------------------------|-------------------|----------------------------------|-------------------------------------|----------------------------|----------------------------|---------------------------------|----------------------------|----------------------|-------------------------|----------------------------|---------------------------|
| Cost/Revaluation | | | | | | Accumulated depreciation | | | | | | | |
| Opening Balance Rand | Additions Rand | Disposals/writ e off Rand | Transfers Rand | Fair value adjustment Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals/writ e off Rand | Other movements Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| | | | | | | | | | | | | | |

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

| | Forecast # 1 2015 Act. Bal. Rand | Forecast # 1 2015 Adjusted budget Rand | Variance Rand | Var | Explanation of Significant Variances greater than 10% versus Budget |
|------------------------------------|---|--|------------------|--------|---|
| Revenue | | | | | |
| Government grants and subsidies | 624 667 582 | 635 152 000 | (10 484 418) | (1,7) | The MIG allocation was reduced as results of poor spending |
| Property rates | 312 009 861 | 330 083 730 | (18 073 869) | (5,5) | Poor revenue collection from townships resulted in under collection of revenue. |
| Service charges | 574 162 365 | 601 567 403 | (27 405 038) | (4,6) | The municipality has continued improving the billing system in the 2014/2015 financial year. The average billing was above the budgeted billing even though the collection rate was below the expected norm of 75%. Factors that has contributed to poor collection rate includes amongst others: <ul style="list-style-type: none"> Electricity theft Accuracy of meter readings, which requires data cleansing. Faulty meters not reported Faulty meters not been replaced on time Boycott on the payment of municipal services due to service delivery challenges including lack of consistent supply of water. |
| Rental of facilities and equipment | 609 731 | 596 277 | 13 454 | 2,3 | The municipality reviewed lease agreements for facilities. Credit control and debt collection procedures were implemented to ensure that all revenue due to the municipality is collected. |
| Interest received (trading) | 64 767 525 | 50 252 601 | 14 514 924 | 28,9 | Debt collection activities were not adequately implemented in the townships due to community protests. |
| Licences and permits | 5 438 102 | 1 795 951 | 3 642 151 | 202,8 | |
| Commissions received | 9 605 630 | 2 244 610 | 7 361 020 | 327,9 | Collected more than 100% because they were under-budgeted; |
| Fines | 2 098 780 | 1 093 599 | 1 005 181 | 91,9 | The budget amount was based on the actual amount received or actual payments made and the amount disclosed in the statement of financial performance is disclosed in line with GRAP Standards which requires the municipality to recognize revenue on traffic fine issued and not in terms of the payments. |
| Other income | 12 796 665 | 26 477 234 | (13 680 569) | (51,7) | Credit control measures were not implemented accordingly on, amongst other, Reconnection fees for electricity |
| Interest received - investment | 3 750 086 | 3 942 603 | (192 517) | (4,9) | |
| | 1 609 906 327 | 1 653 206 008 | (43 299 681) | (2,6) | |
| Expenses | | | | | |
| Personnel | (324 757 266) | (308 100 489) | (16 656 777) | 5,4 | Overtime expenditure exceeded the appropriated amount for the year. |
| Remuneration of councillors | (22 405 619) | (25 799 620) | 3 394 001 | (13,2) | |
| Depreciation | (611 877 695) | (78 340 000) | (533 537 695) | 681,1 | Condition assessment of infrastructure assets indicates serious deterioration of roads, water and sanitation infrastructure. |
| Impairment | (120 670 472) | - | (120 670 472) | - | |
| Finance costs | (101 123 702) | - | (101 123 702) | - | The municipality is not paying PIC loan. Investigations are ongoing on the matters surrounding the acquisition of PIC loan before the democratic government dispensation. |
| Debt impairment | (85 325 977) | (232 912 783) | 147 586 806 | (63,4) | Over estimation of provision for bad debts. |
| Repairs and maintenance | (64 294 729) | (48 562 000) | (15 732 729) | 32,4 | The municipality experienced service delivery protests during the year that led to damage to infrastructure. The repairs and maintenance costs incurred led to the over expenditure. |

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

| | Forecast # 1 2015 Act. Bal. | Forecast # 1 2015 Adjusted budget | Variance | | Explanation of Significant Variances greater than 10% versus Budget |
|--|-----------------------------------|--|---------------|---------|---|
| Bulk purchases | (491 234 038) | (463 000 000) | (28 234 038) | 6,1 | Increase in Eskom, Rand Water and City of Tshwane tariffs led to high expenditure. The other factor is high consumption of electricity during winter. The municipality also experienced distribution losses due to water leaks. There were also new township establishments and various new developments going on in the jurisdiction that led to high consumption. |
| Contracted Services | (153 969 106) | (87 478 390) | (66 490 716) | 76,0 | There was need to increase security services to various infrastructures such as power substations and plants. The unruly communities destroyed some of the infrastructure. The other factor was increase in waste removal and water tankering activities |
| Grants and subsidies paid | (13 322 718) | (15 000 000) | 1 677 282 | (11,2) | |
| General Expenses | (155 400 553) | (134 738 613) | (20 661 940) | 15,3 | .The items under general expenses which have exceeded the 100% due to water disruption, extension of scope on professional services and items that were not properly budgeted for. |
| Other revenue and costs | (2 144 381 875) | (1 393 931 895) | (750 449 980) | 53,8 | |
| Loss on assets written off | (11 399 504) | - | (11 399 504) | - | |
| Acturial gain/(loss) on post employment benefits | 2 397 273 | - | 2 397 273 | - | |
| Fair value adjustments | (184 663 209) | - | (184 663 209) | - | |
| Gain/(loss) on provision for landfill closure | (1 746 666) | - | (1 746 666) | - | |
| | (195 412 106) | - | (195 412 106) | - | |
| Net surplus/ (deficit) for the year | (729 887 654) | 259 274 113 | (989 161 767) | (381,5) | |

Appendix E(2)

Budget Analysis of Capital Expenditure as at 30 June 2015

| | Additions | Revised Budget | Variance | Variance | Explanation of significant variances from budget |
|---------------------------------|--------------------|--------------------|-------------------|-----------|---|
| | Rand | Rand | Rand | % | |
| Municipality | | | | | |
| Property, plant and equipment | 233 581 408 | 265 805 000 | 32 223 592 | 12 | |
| | 233 581 408 | 265 805 000 | 32 223 592 | 12 | |
| Municipal Owned Entities | | | | | |
| Other charges | | | | | |